

Exhibit I

In The Matter Of:

***(C-"FHFA-ALL") FEDERAL HOUSING FINANCE
AGENCY, ETC.***

***DONNA CORLEY 30(b)(6) - Vol. 3
July 15, 2013***

MERRILL CORPORATION

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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

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FEDERAL HOUSING FINANCE AGENCY, etc. :
Plaintiff, :
vs. : 11 Civ. 5201
UBS AMERICAS, INC., et al., : (DLC)
Defendants. :

-----x
FEDERAL HOUSING FINANCE AGENCY, etc. :
Plaintiff, :
vs. : 11 Civ. 6188
JPMORGAN CHASE & CO., et al. : (DLC)
Defendants. :

-----x
FEDERAL HOUSING FINANCE AGENCY, etc., :
Plaintiff, :
vs. : 11 Civ. 6189
HSBC NORTH AMERICA HOLDINGS, INC., et : (DLC)
al., :
Defendants. :

-----x

1	-----x	
2	FEDERAL HOUSING FINANCE AGENCY, etc.,	:
3	Plaintiff	:
4	vs.	: 11 Civ. 6190
5	BARCLAYS BANK PLC, et al.,	: (DLC)
6	Defendants.	:
7	-----x	
8	FEDERAL HOUSING FINANCE AGENCY, etc.,	:
9	Plaintiff,	:
10	vs.	: 11 Civ. 6192
11	DEUTSCHE BANK AG, et al.,	: (DLC)
12	Defendants.	:
13	-----x	
14	FEDERAL HOUSING FINANCE AGENCY, etc.,	:
15	Plaintiff,	:
16	vs.	: 11 Civ. 6193
17	FIRST HORIZON NATIONAL CORP., et al.,	: (DLC)
18	Defendants.	:
19	-----x	
20	FEDERAL HOUSING FINANCE AGENCY, etc.,	:
21	Plaintiff,	:
22	vs.	: 11 Civ. 6195
23	BANK OF AMERICA CORP., et al.	:
24	Defendants.	:
25	-----x	

1	-----x	
2	FEDERAL HOUSING FINANCE AGENCY, etc.,	:
3	Plaintiff,	:
4	vs.	: 11 Civ. 6198
5	GOLDMAN, SACHS & CO., et al.,	: (DLC)
6	Defendants.	:
7	-----x	
8	FEDERAL HOUSING FINANCE AGENCY, etc.,	:
9	Plaintiff,	:
10	vs.	: 11 Civ. 6200
11	CREDIT SUISSE HOLDINGS (USA), INC.,	: (DLC)
12	et al.,	:
13	Defendants.	:
14	-----x	
15	FEDERAL HOUSING FINANCE AGENCY, etc.,	:
16	Plaintiff,	:
17	vs.	: 11 Civ. 6201
18	NOMURA HOLDING AMERICA, INC., et al.,	: (DLC)
19	Defendants.	:
20	-----x	
21	FEDERAL HOUSING FINANCE AGENCY, etc.,	:
22	Plaintiff,	:
23	vs.	: 11 Civ. 6202
24	MERRILL LYNCH & CO., INC., et al.,	: (DLC)
25	Defendants.	:

1	-----x	
2	FEDERAL HOUSING FINANCE AGENCY, etc.,	:
3	Plaintiff,	:
4	vs.	: 11 Civ. 6203
5	SG AMERICAS, INC., et al.,	: (DLC)
6	Defendants.	:
7	-----x	
8	FEDERAL HOUSING FINANCE AGENCY, etc.,	:
9	Plaintiff,	:
10	vs.	: 11 Civ. 6739
11	MORGAN STANLEY, et al.,	: (DLC)
12	Defendants.	:
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1 IN THE UNITED STATES DISTRICT COURT
2 DISTRICT OF CONNECTICUT
3 -----x
4 FEDERAL HOUSING FINANCE AGENCY, :
5 etc., :
6 Plaintiff, :
7 vs. : Case No.
8 THE ROYAL BANK OF SCOTLAND GROUP : 3:11-cv-01383-AWT
9 PLC, et al., :
10 Defendants. :
11 -----x

12

13

14

15 Volume III

16 Videotaped 30(b)(6) Deposition of

17 Freddie Mac

18 through the testimony of Donna Corley

19 Washington, D.C.

20 July 15, 2013

21 1:41 p.m.

22

23 Job No. 235819

24 Pages 286 - 429

25 Reported by: Bonnie L. Russo

1 DONNA CORLEY

2 went to -- back to the middleman in terms of
3 the strategy execution team and then onto the
4 portfolio managers, or if the summary
5 information went right to the portfolio
6 managers. More detailed information would go
7 back to the broker-dealers.

8 Q. And why would detailed information
9 go back to the broker-dealers?

10 A. It was showing how the different
11 loans, as part of the potential transaction,
12 got classified into.

13 Q. Were the broker-dealers expected to
14 use that information?

15 MR. OBLAK: Objection to form and
16 scope.

17 THE WITNESS: At different points in
18 time, potentially, yes.

19 BY MR. BATHAEE:

20 Q. And how were they supposed to use
21 that information?

22 MR. OBLAK: Objection to the form
23 and scope.

24 THE WITNESS: At different points in
25 time, some of the -- the loans with certain

1 DONNA CORLEY

2 characteristics would be put into a -- I guess
3 into what they call a wide shape structure. We
4 would receive the principal and interest off of
5 the goal-rich and goal-neutral loans.

6 BY MR. BATHAEE:

7 Q. So the data that went back to the
8 dealers, was that used to select the collateral
9 that went to that Y-shaped structure?

10 MR. OBLAK: Objection to the form
11 and scope.

12 THE WITNESS: There were -- I guess
13 my understanding is appeared to have been some
14 best efforts steps put on the trades looking to
15 distinguish some of the collateral in certain
16 instances.

17 BY MR. BATHAEE:

18 Q. So from the period of 2005 to the
19 middle of 2006 --

20 A. Uh-huh.

21 Q. -- when mission ran the output and
22 went back to the dealers in a very specific
23 form, the dealers would then use that
24 information to select the collateral in the
25 deals; is that fair?

1 DONNA CORLEY

2 MR. OBLAK: Objection to the form
3 and scope.

4 THE WITNESS: It would have been one
5 piece of information that they would have,
6 again, given -- I guess their best efforts on
7 certain trades to take into account. It was
8 not a -- something considered on every single
9 deal then.

10 BY MR. BATHAEE:

11 Q. Is it fair to say they used that
12 data to make their best efforts to ensure as
13 many housing goals qualifying loans were
14 included in the deal as possible?

15 MR. OBLAK: Objection to the form.

16 BY MR. BATHAEE:

17 Q. Under the circumstances, same
18 objection.

19 THE WITNESS: In certain
20 circumstances, I will note there are also
21 completely neutral loans that would have been
22 in those population as well. So not all loans
23 would have been goal-qualifying loans.

24 BY MR. BATHAEE:

25 Q. But the purpose of mission running

1 DONNA CORLEY

2 the loans was to determine which ones were
3 goal-qualified, correct?

4 A. As well as neutral, correct.

5 Q. And that data was provided in order
6 to ensure that as many goal-qualifying loans
7 would be included in the securitization as
8 possible, right?

9 MR. OBLAK: Objection to the form.

10 THE WITNESS: Potentially.

11 BY MR. BATHAEE:

12 Q. And that was a matter of practice
13 between 2005 and the middle of 2006?

14 MR. OBLAK: Objection to the form.

15 THE WITNESS: For certain products,
16 correct.

17 BY MR. BATHAEE:

18 Q. And how did that -- how did that
19 practice change after 2006?

20 MR. OBLAK: Objection to the form.

21 BY MR. BATHAEE:

22 Q. In terms of after the scoring
23 occurred? What happened would happen as a
24 result of the scoring after the middle of 2006?

25 MR. OBLAK: Objection to the form.

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2 THE WITNESS: Talk about our
3 internal practice was -- rather than mission
4 being in the process of running the tool either
5 though the business execution area or the
6 broker-dealers themselves could run the
7 analytics directly.

8 BY MR. BATHAEE:

9 Q. And would they then send the results
10 of those analytics to the dealers during the
11 period -- middle of 2006 to 2008?

12 MR. OBLAK: Objection to the form.

13 THE WITNESS: Would the dealers send
14 it to themselves?

15 BY MR. BATHAEE:

16 Q. I'm sorry. Would the -- I'm sorry.
17 I might have done -- mangled that
18 question.

19 Would the people who ran those
20 analytics ultimately at Freddie Mac send the
21 results to dealers?

22 A. That's my understanding of the
23 practice, yeah.

24 Q. From middle of 2006 to 2008, right?

25 MR. OBLAK: Objection to the form.

1 DONNA CORLEY

2 THE WITNESS: Roughly in that time
3 span, yeah.

4 BY MR. BATHAEE:

5 Q. And the dealers would use that data
6 for the same purpose?

7 MR. OBLAK: Objection to the form.

8 BY MR. BATHAEE:

9 Q. Right?
10 As in 2005 to the middle of 2006?

11 MR. OBLAK: Same objection.

12 THE WITNESS: Yeah, the -- any given
13 time, the exact use of it may vary, so -- but,
14 in general, it was to provide the
15 identification of the loans based on affordable
16 characteristics.

17 BY MR. BATHAEE:

18 Q. And the iden -- the identification
19 of the loans for affordable characteristics,
20 that was also done for Freddie Mac's purposes,
21 right?

22 MR. OBLAK: Objection to the form.

23 BY MR. BATHAEE:

24 Q. Internal purposes, I should say?

25 A. Freddie Mac was required to submit

1 DONNA CORLEY

2 HUD goals every year and so we needed to be
3 able to collect information to be able to
4 report on what our goal count was, so that data
5 was essential.

6 Q. And this process of asking or
7 returning the data to the dealers about
8 which -- which were goals qualifying and which
9 were goals neutral, that was for PLS?

10 MR. OBLAK: Objection to the form.

11 THE WITNESS: Correct.

12 BY MR. BATHAEE:

13 Q. And you said certain products
14 earlier. What other products would that
15 include, that process applied to?

16 MR. OBLAK: Objection.

17 THE WITNESS: PLS is the acronym I
18 use to say Private Label Securities, which
19 encompasses a lot of different types of
20 products. So there's subprime, there's home
21 equities, there's Alt-A, MTA, so lots of
22 different types of collateral filed within PLS.

23 BY MR. BATHAEE:

24 Q. Can you think of any products to
25 which that procedure would not apply to?

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2 MR. OBLAK: Objection.

3 THE WITNESS: The practice of
4 separating out some of these characteristics, I
5 do not think was a common occurrence in Alt-A
6 ARMs, which is the products that I had been
7 involved in.

8 BY MR. BATHAEE:

9 Q. And why is that?

10 A. I'm not sure.

11 Q. Well, what was the procedure that
12 applied to Alt-A ARMs?

13 MR. OBLAK: Objection to the form.

14 THE WITNESS: It was the same
15 policies and procedures that governed all PLS
16 for Freddie Mac's retained portfolio.

17 BY MR. BATHAEE:

18 Q. What practices?

19 A. The practice was that there were no
20 stipulations on the trades that were done in trying to
21 separate goals in this manner on a regular
22 basis.

23 Q. Was it because Freddie Mac was not
24 seeking goals of accretive loans in Alt-A ARMs?

25 MR. OBLAK: Objection to the form.

1 DONNA CORLEY

2 Scope.

3 THE WITNESS: Can you say that one
4 more time?

5 BY MR. BATHAEE:

6 Q. Sure.

7 Was it because Freddie Mac was not
8 seeking goals of accretive loans in Alt-A
9 environments? A-C-C-R-E-T-I-V-E?

10 MR. OBLAK: Same objection.

11 THE WITNESS: I would say there
12 wasn't any type of targeted approach done for
13 certain goal-qualifying populations as a
14 regular practice.

15 BY MR. BATHAEE:

16 Q. You mean the same kind of targeted
17 approach that was used for other products such
18 as PLS, generally?

19 MR. OBLAK: Objection to the form.

20 BY MR. BATHAEE:

21 Q. Right?

22 A. From time to time.

23 Q. And when you say, "from time to
24 time," what do you mean by that?

25 A. At different time intervals, there

1 DONNA CORLEY

2 housing goals?

3 MR. OBLAK: Same objection.

4 THE WITNESS: I can't is speak to
5 his level of detail of everything, but I would
6 understand he would have a general knowledge of
7 all of these topics.

8 BY MR. BATHAEE:

9 Q. You would certainly hope so, right?

10 MR. OBLAK: Objection to the form.

11 THE WITNESS: He was a CEO.

12 BY MR. BATHAEE:

13 Q. Okay. And if you go look at Page 44
14 -- oh, I'm sorry. Different page number. No,
15 it is 44.

16 MR. OBLAK: Are you using the
17 transcript page?

18 BY MR. BATHAEE: Yeah, that's right.

19 BY MR. BATHAEE:

20 Q. Transcript pagination 44. It's the
21 only pagination on the page other than Bates --
22 well, actually, you raise a good point. I may
23 have the wrong pagination here. Yeah, you're
24 right. That's right. I'm sorry. It's -- it's
25 FHFA 08387844. That's the Page 140 of the

1 DONNA CORLEY

2 transcript.

3 Thank you.

4 So do you see where it says on Page
5 140, at the top, it says: "What about outside
6 the set off site, do you have any concept of
7 the Home Possible while you were at Freddie Mac
8 that the Home Possible product was a higher
9 risk product?"

10 And the answer is: "I would expect
11 it to be."

12 And the question is: "Why is that?"

13 Answer: "Because it was given to"
14 -- if you look at the hit rates on the, for
15 example, loan mod" -- I think he means low
16 mod -- "and sub goal eligible, right, the hit
17 rates are pretty good and an unfortunate fact
18 of life is that as hit rates went up, loans
19 were often risky."

20 And then he's asked the question:
21 "What is a hit rate?"

22 The answer is: "Whatever it meets"
23 -- "whether it meets one of the goals."

24 Do you see that?

25 A. I do see it.

1 DONNA CORLEY

2 Q. Would you agree that as hit rates
3 for housing goals went up the loans were often
4 risky?

5 MR. OBLAK: Objection to the scope.

6 THE WITNESS: Sorry. I see his --
7 his comments here.

8 BY MR. BATHAEE:

9 Q. No. I have a question pending.

10 A. I'm sorry. What's the question
11 pending? I'm sorry.

12 Q. Would you agree that as hit rates
13 for housing goals went up --

14 A. Uh-huh.

15 Q. -- the loans were often risky?

16 MR. OBLAK: Objection to the form
17 and scope.

18 THE WITNESS: That's what this is
19 saying, correct?

20 BY MR. BATHAEE:

21 Q. I'm asking would you agree?

22 MR. OBLAK: Same objection.

23 THE WITNESS: There could be higher
24 risk characteristics in some of those loans,
25 yes.

1 DONNA CORLEY

2 BY MR. BATHAEE:

3 Q. Now, are you aware of any specific
4 PLS trade during the period 2005 to 2008 in
5 which Freddie Mac was not trying to further its
6 mission to provide affordable housing goals --
7 affordable housing by meeting housing goals?

8 MR. OBLAK: Objection to the form
9 and scope.

10 THE WITNESS: Any trade in 2 -- I'm
11 sorry. Repeat one more time.

12 BY MR. BATHAEE:

13 Q. Sure.

14 Are you aware of any specific PLS
15 trade during the period 2005 to 2008 in which
16 Freddie Mac was not trying to further its
17 mission providing affordable housing by meeting
18 housing goals?

19 MR. OBLAK: Same objections.

20 THE WITNESS: Although goals were
21 always one of many characteristics that -- or
22 one of many factors that were considered in
23 making PLS trades, it was not necessarily a
24 targeted objective for certain asset classes
25 like I described before. Alt-A, PLS, for

1 DONNA CORLEY

2 example, would have been one of them.

3 BY MR. BATHAEE:

4 Q. So is the answer to my question,
5 yes, though, that for all of those deals 2005,
6 2008, Freddie Mac sought to further its mission
7 by providing -- performing -- providing
8 affording housing by meeting housing goals?

9 MR. OBLAK: Same objections.

10 THE WITNESS: We were targeting the
11 mission, the broader mission of providing
12 liquidity to the housing market. Not all trade
13 was targeted for affordable goals.

14 BY MR. BATHAEE:

15 Q. All right. And I think you can set
16 aside the transcript I just handed you. We can
17 reduce that clutter.

18 I'm going to hand you this now.

19 (Deposition Exhibit No. 1847 was
20 marked for identification.)

21 BY MR. BATHAEE:

22 Q. Handing you what has been marked as
23 Exhibit 1847, and the document is entitled
24 "Cost of Freddie Mac's Affordable Housing
25 Mission," dated June 4th, 2009, Bates No. FHFA

1 DONNA CORLEY

2 06123085, and it appears likely it was either
3 prepared for the business and risk committee
4 board of directors.

5 Do you know what that refers to?

6 MR. OBLAK: Objection to the form.

7 THE WITNESS: I do.

8 BY MR. BATHAEE:

9 Q. What is that?

10 A. One of the committees of the board
11 of directors.

12 Q. And do you know who is -- who is on
13 that committee?

14 MR. OBLAK: Objection to the scope.

15 THE WITNESS: Not at that given
16 time, although I'm sure it's a matter of public
17 record.

18 BY MR. BATHAEE:

19 Q. Did you see this document before?

20 A. Not that I recall.

21 Q. So let's start with the beginning of
22 the document. On Bates number pending 86, it
23 says "Summary" at the top.

24 Do you see that, first page?

25 A. Oh.

1 DONNA CORLEY

2 Q. 86.

3 So just so there's no confusion -- I
4 got confused when I first saw this. There's a
5 number at the very bottom. You see the 83?

6 A. Yes, I do.

7 Q. Just ignore that. I care about the
8 FHFA number.

9 A. FHFA?

10 Q. Yes. So I'll be using that one.

11 And it says -- if you look at the
12 third bullet, it says: "Higher risk mortgages
13 disproportionately tend to be goal-qualified."

14 Do you see that?

15 A. I do.

16 Q. Do you agree with that statement?

17 MR. OBLAK: Objection to the form
18 and scope.

19 THE WITNESS: I think that was the
20 same point that we were talking about earlier.
21 It's consistent with that.

22 BY MR. BATHAEE:

23 Q. So the answer is yes?

24 MR. OBLAK: Same objections.

25 THE WITNESS: Yes.

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2 BY MR. BATHAEE:

3 Q. And then underneath it, it says:
4 "Targeted affordable lending generally requires
5 accepting substantial higher credit risk."

6 Is that the case?

7 MR. OBLAK: Objection to the form
8 and scope.

9 THE WITNESS: This is talking about
10 the single-family line of business, the flow
11 guarantee business.

12 BY MR. BATHAEE:

13 Q. Well, we'll see that that's not the
14 case as we go through the document, but --

15 A. Okay.

16 Q. -- let me -- let me -- let me ask a
17 more specific question.

18 A. Okay.

19 MR. OBLAK: Object to that statement
20 on the record.

21 BY MR. BATHAEE:

22 Q. What does "targeted affordable
23 housing" mean?

24 MR. OBLAK: Objection to the form
25 and scope.

1 DONNA CORLEY

2 THE WITNESS: I'm not sure exactly
3 how they're using the phrase here, other than
4 general terms of trying to look for affordable
5 qualifying loans.

6 BY MR. BATHAEE:

7 Q. Okay. And when they refer to
8 single-family loans here, you understand that
9 to mean the single-family division or loans
10 that are single fam -- for single-family
11 houses?

12 MR. OBLAK: Objection to the form
13 and scope.

14 THE WITNESS: The third bullet where
15 it talks about we charge more for targeted
16 affordable single-family loans --

17 BY MR. BATHAEE:

18 Q. Yes?

19 A. -- but not enough to fully offset
20 their higher incremental risk, that I refer to
21 be the single-family loans in the single-family
22 flow business.

23 Q. And what makes you think it excludes
24 PLS?

25 A. Because the pricing for PLS was

1 DONNA CORLEY

2 understanding.

3 BY MR. BATHAEE:

4 Q. So did Freddie Mac have to compete
5 with Fannie Mae to get loans that met
6 characteristics to match goals and sub goals?

7 MR. OBLAK: Same objection.

8 THE WITNESS: As we compete for all
9 mortgages, yes.

10 BY MR. BATHAEE:

11 Q. And if Freddie Mac could have gotten
12 more loans that met goals and sub goals, it
13 would certainly try to do so, right?

14 MR. OBLAK: Same objection.

15 THE WITNESS: To the extent it still
16 met our risk return objectives, yes.

17 BY MR. BATHAEE:

18 Q. And sometimes those risk return
19 objectives were negative, correct?

20 MR. OBLAK: Same objections.

21 THE WITNESS: There's a difference
22 between negative and below cost.

23 BY MR. BATHAEE:

24 Q. Fair enough. Let me try it again.

25 A. Uh-huh.

1 DONNA CORLEY

2 Q. Sometimes risk return objectives
3 reflected returns below the cost of capital
4 adjusted on a risk basis, correct?

5 MR. OBLAK: Objection to the form
6 and scope.

7 THE WITNESS: My understanding is
8 that it was exceptionally rare in PLS base; a
9 little bit more common in a single-family
10 space.

11 BY MR. BATHAEE:

12 Q. So the answer is yes?

13 MR. OBLAK: Objection to the form.

14 THE WITNESS: Again, very limited so
15 in PLS.

16 BY MR. BATHAEE:

17 Q. But yes?

18 MR. OBLAK: Objection to the form.

19 BY MR. BATHAEE:

20 Q. Just want a clear record.

21 MR. OBLAK: She's answered the
22 question.

23 THE WITNESS: Very limited instances
24 in PLS.

25 BY MR. BATHAEE:

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2 Q. Let's move back to page -- let me
3 see. I don't want to recover grounds we have
4 been to earlier. Let's look at Page 91.

5 Now, it says at the bullet:
6 "Goals-qualifying loans tend to be higher
7 risk."

8 Do you see the first sub bullet that
9 says: "Housing goals and sub goals target
10 lower income borrowers in areas"?

11 A. Yes, I see it.

12 Q. Is that one of the reasons why
13 goals-qualifying loans tend to be higher risk?

14 MR. OBLAK: Objection to the form
15 and scope.

16 THE WITNESS: I think the next
17 bullet tries to explain it more.

18 BY MR. BATHAEE:

19 Q. Sure.

20 And how does it explain it?

21 A. Talking about how it correlated with
22 other factors.

23 Q. So you would agree that lower
24 household income correlates with various risk
25 factors, such as less wealth, less employment

1 DONNA CORLEY

2 stability, higher loan-to-value ratios, and
3 lower credit scores?

4 MR. OBLAK: Objection to the form
5 and scope.

6 THE WITNESS: I would say that's --
7 that's what this says. I have no reason to
8 think it's not true.

9 BY MR. BATHAEE:

10 Q. So you don't disagree with the
11 statement?

12 A. I don't.

13 Q. And would you agree that lower
14 income areas may exhibit greater house price
15 volatility?

16 MR. OBLAK: Objection to the form
17 and scope.

18 THE WITNESS: I don't know why that
19 would be the case. I'm not -- I'm not familiar
20 with that.

21 BY MR. BATHAEE:

22 Q. Do you have any reason to doubt that
23 it's correct?

24 MR. OBLAK: Same objection.

25 THE WITNESS: I don't have any

1 DONNA CORLEY

2 reason to doubt it. I just don't -- I'm not
3 aware of what -- the first time I have ever
4 seen that --

5 BY MR. BATHAEE:

6 Q. Fair enough.

7 A. -- statement, so no reason to
8 believe it's not true. I just --

9 Q. I suppose my question is a little
10 different; that is, do you have any basis to
11 think that it's incorrect?

12 MR. OBLAK: Objection to the form
13 and scope.

14 THE WITNESS: I don't have any
15 information that would say it's incorrect.

16 BY MR. BATHAEE:

17 Q. And, you know, just so I'm clear, in
18 this board presentation, goal-qualifying loans
19 tend to be higher risk because of the
20 correlation between lower household incomes and
21 some of these factors listed here, correct?

22 MR. OBLAK: Objection to the form,
23 scope.

24 THE WITNESS: That's my
25 understanding.

1 DONNA CORLEY

2 BY MR. BATHAEE:

3 Q. And do you have any reason to think
4 this is incorrect?

5 MR. OBLAK: Same objection.

6 THE WITNESS: Sorry.

7 How is that different than the prior
8 question?

9 BY MR. BATHAEE:

10 Q. I'm talking about the entire bullet
11 and sub bullets, generally.

12 MR. OBLAK: Same objections.

13 THE WITNESS: When controlling for
14 all other features of the loans, with the
15 exception of these, these could be higher risk.

16 BY MR. BATHAEE:

17 Q. And in the top bullet, it says,
18 "goal-qualifying loans." Is this referring to
19 neutral loans, too?

20 MR. OBLAK: Objection to the form
21 and scope.

22 THE WITNESS: I would not think so.

23 BY MR. BATHAEE:

24 Q. Why is that?

25 A. Because to qualify for counting

1 DONNA CORLEY

2 towards the goal you either have to be
3 accretive or decretive.

4 Q. So this is -- could this be saying
5 goal-qualifying loans tend to be higher risk
6 than goal-neutral loans?

7 MR. OBLAK: Objection to the form.

8 THE WITNESS: It could be.

9 BY MR. BATHAEE:

10 Q. Okay. Let's go to 92. Actually,
11 you know what? Let's go back to 97. So in 97
12 where it says exact same phrase,
13 goal-qualifying," your testimony is that means
14 something different here?

15 MR. OBLAK: Objection to the form
16 and scope.

17 THE WITNESS: No. My comment was
18 about the specially designed ABS.

19 BY MR. BATHAEE:

20 Q. Right.

21 But with respect to goal-qualifying,
22 that excludes neutral loans, correct?

23 MR. OBLAK: Objection to the form.

24 BY MR. BATHAEE:

25 Q. As used here on this page?

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2 MR. OBLAK: Objection to the form
3 and scope.

4 THE WITNESS: No. The specially
5 designed ABS included the exceptional
6 goal-qualifying collateral that's written here
7 and the neutral loans. So the special design
8 included two parts.

9 BY MR. BATHAEE:

10 Q. But were they specially designed to
11 include goal-qualifying collateral, as it's
12 written here? Would that imply that it was
13 designed to include neutral loans?

14 MR. OBLAK: Objection to the form
15 and scope.

16 THE WITNESS: I would have worded it
17 the inverse to say it was specially designed to
18 exclude the dilutive loans.

19 BY MR. BATHAEE:

20 Q. Setting aside how you would have
21 worded it, how it's worded here doesn't seem to
22 include goal or neutral loans, right?

23 MR. OBLAK: Objection to the form
24 and scope.

25 THE WITNESS: The whole purpose of

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2 similar to the entire industry, I don't think
3 there was a black and white Webster's
4 dictionary definition.

5 BY MR. BATHAEE:

6 Q. So, generally, how would Freddie Mac
7 define subprime?

8 MR. OBLAK: Same objections.

9 THE WITNESS: So within the trading
10 desk, we used it to refer to the assets that
11 were shown to us that were being described as
12 subprime deals.

13 BY MR. BATHAEE:

14 Q. How did Freddie Mac define subprime?

15 MR. OBLAK: Objection to the form
16 and scope.

17 THE WITNESS: I'm answering the
18 question. We defined it -- we reused the same
19 definition that was given to us.

20 BY MR. BATHAEE:

21 Q. What loan characteristics were
22 associated with the definition of subprime that
23 you used at Freddie Mac?

24 MR. OBLAK: Same objection.

25 THE WITNESS: So for the deals

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2 classified as subprime, PLS had FICO scores
3 that tend to be lower than other asset classes
4 that we looked at and purchased.

5 BY MR. BATHAEE:

6 Q. Around what FICO score, do you
7 remember?

8 MR. OBLAK: Same objections.

9 THE WITNESS: I don't recall. I
10 believe it was in the 600s. I don't recall.

11 BY MR. BATHAEE:

12 Q. So if we move on to 96, it says:
13 "Goal-qualifying single-family loans accounted
14 for the disproportionate share of our 2008
15 realized losses that was predicted by our
16 models."

17 Would you disagree with that
18 statement?

19 MR. OBLAK: Objection to the form
20 and scope.

21 THE WITNESS: Let me read this. I'm
22 sorry.

23 Okay. I'm sorry. Repeat the
24 question.

25 BY MR. BATHAEE:

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2 Q. Sure.

3 "Goal-qualifying single-family loans
4 accounted for the disproportionate of our 2008
5 realized losses that was predicted by our
6 models."

7 Would you disagree with that
8 statement?

9 MR. OBLAK: Same objection.

10 THE WITNESS: I have no basis to
11 disagree with what's written there.

12 BY MR. BATHAEE:

13 Q. I'll ask you a quick question: Did
14 Freddie Mac create or file any reports,
15 statements, compilations on housing goal hit
16 rates for PLS on a deal-by-deal basis?

17 MR. OBLAK: Objection to the form
18 and scope.

19 THE WITNESS: So our post-deal
20 process did have us getting the -- or getting
21 the business execution area would collect the
22 tape, provide it to mission for the loans that
23 ended up in our deal so that it could be
24 counted towards the goals.

25 BY MR. BATHAEE:

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2 Q. So does that mean that for each deal
3 mission prepared a report to, perhaps, a
4 regulator stating which loans that deal met
5 housing goals?

6 MR. OBLAK: Objection to the form
7 and scope.

8 THE WITNESS: I don't know if the
9 report they viewed the regulator was
10 transaction by transaction. More likely rolled
11 up to show aggregate hit rates for the month or
12 for the quarter.

13 BY MR. BATHAEE:

14 Q. Did mission prepare any
15 transaction-by-transaction reports that reflect
16 housing goal hit rates?

17 MR. OBLAK: Same objections.

18 THE WITNESS: My understanding is
19 that there was a period of time where they
20 would compare what the hit rates were versus
21 what we thought the hit rates were going to be
22 from the pre-bid process.

23 BY MR. BATHAEE:

24 Q. And that was done in some kind of
25 report?

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2 MR. OBLAK: Objection to the form.

3 THE WITNESS: Correct.

4 BY MR. BATHAEE:

5 Q. And do you know who would have been
6 responsible for preparing that report?

7 A. I believe that -- actually, I
8 believe that -- well, actually, I believe that
9 transitioned similar to the whole process
10 overall. It may have started with mission and
11 then went to the -- the business execution
12 area.

13 Q. Okay. Let's go back to 96.

14 Is this saying that single-family
15 loans -- what does that refer to?

16 MR. OBLAK: Objection to the form
17 and scope.

18 BY MR. BATHAEE:

19 Q. At the top, it says:
20 "Goals-qualifying single-family loans" -- or,
21 it says, "SF," I should say -- "account for the
22 disproportionate share of our 2008 realized
23 losses as predicted by our models."

24 What does that mean?

25 MR. OBLAK: Same objection.

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2 THE WITNESS: It means
3 single-family. We usually use it in that
4 context to refer to the flow guaranteed
5 business.

6 BY MR. BATHAEE:

7 Q. And does this imply that loans
8 purchased through that business that met
9 housing goals had a higher rate of default?

10 MR. OBLAK: Same objections.

11 THE WITNESS: It says, "realized
12 losses," so whether that's default or severity
13 or some combination thereof...

14 BY MR. BATHAEE:

15 Q. And is there any reason why loans
16 backing PLS that met housing goals would be any
17 different in terms of losses?

18 MR. OBLAK: Same objections.

19 THE WITNESS: Yes, a couple of
20 different ways.

21 BY MR. BATHAEE:

22 Q. Can you tell me what those
23 differences would be?

24 A. Well, first off, it was credit
25 enhancement, so --

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2 MR. OBLAK: Let her finish her
3 answer, please.

4 MR. BATHAEE: I want to clarify my
5 question.

6 MR. OBLAK: Let her finish her
7 answers before you interrupt her.

8 BY MR. BATHAEE:

9 Q. You can finish your answer, of
10 course, but I -- I do have a clarifying
11 question.

12 A. So, in terms of credit enhancement,
13 you don't obviously realize any losses until
14 all the credit enhancement is gone.

15 The other important distinction with
16 how these deals are structured is whether or
17 not our bond was backed by the goal-qualifying,
18 goal-neutral or those that are decretive. It
19 was all cross-collateralized. So the credit
20 enhancement included all of those loans. So
21 whether or not we kept in decretive loans or
22 moved them to the other tranche of the deal,
23 had no bearing on the credit losses that could
24 eventually ever -- or could potentially end up
25 hitting the structuring various scenarios.

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2 Q. Are you done with your answer?

3 A. Yes.

4 Q. For the underlying loans, their
5 probability of default, is there any reason to
6 believe that those loans would have defaulted
7 any differently from the ones that met housing
8 goals than the ones purchase through this
9 business, single-family business that you
10 referred to?

11 MR. OBLAK: Objection to the form
12 and scope.

13 THE WITNESS: Most likely be
14 similar, which is why the credit enhancement
15 structure was in place.

16 MR. BATHAEE: All right. We have
17 three minutes left on the videotape, so we can
18 stop.

19 MR. OBLAK: I think we only have two
20 minutes left in the -- in the day.

21 MR. BATHAEE: Let's go off the
22 record and get the run time.

23 THE VIDEOGRAPHER: Going off the
24 record. The time is 3:49 p.m..

25 (Whereupon, the proceeding was

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concluded at 3:49 p.m.)

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